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FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 8899
RUEATRS/DEPT OF TREASURY WASHDC
INFO RUCPDOC/USDOC WASHDC
RUEHBK/AMEMBASSY BANGKOK 3182
RUEHBJ/AMEMBASSY BEIJING 4810
RUEHUL/AMEMBASSY SEOUL 7648
RUEHGP/AMEMBASSY SINGAPORE 6379
RUEHKO/AMEMBASSY TOKYO 7507
RUEHML/AMEMBASSY MANILA 9678
RUEHJA/AMEMBASSY JAKARTA 3811
RUEHKL/AMEMBASSY KUALA LUMPUR 3454
RUEHHI/AMEMBASSY HANOI 3032
RUEHBY/AMEMBASSY CANBERRA 4163
RUEHWL/AMEMBASSY WELLINGTON 1472
RUEHHK/AMCONSUL HONG KONG 6008
RUESLE/AMCONSUL SHANGHAI 8454
RUEHGZ/AMCONSUL GUANGZHOU 9060

UNCLAS AIT TAIPEI 000711

SIPDIS

STATE PLEASE PASS USTR

STATE FOR EAP/RSP/TC, EAP/EP

USTR FOR WINTER AND WINELAND

USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT
TREASURY FOR OASIA/LMOGHTADER
TREASURY PLEASE PASS TO OCC/AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN
SIPDIS

E.O. 12958: N/A

TAGS: EINV EFIN ECON PINR TW

SUBJECT: Freeing Taiwan's "Card Slaves"

Ref: 05 TAIPEI 4178

¶1. (SBU) Summary: Overdue credit card debt and the absence of a personal bankruptcy law has led to a few high-profile cases where Taiwan "card slaves" chose suicide or crime as their only options to escape aggressive harassment from debt collection agencies. While the overall amount of delinquent card debt in Taiwan is not large, and declining, the plight of the card slaves has captured public and government attention. Local and foreign banks are concerned that some of the proposed solutions may have a negative impact on Taiwan's financial sector and GDP growth. End summary.

Taiwan's Card Slaves

¶2. (SBU) Widespread use of credit and cash cards is a relatively recent phenomenon in Taiwan. The push by banks to expand this profitable market has resulted in some inexperienced consumers being overwhelmed by their debt. Fifty-fiveThe 55 financial institutions issuing cards in Taiwan operate card businesses and have issued enough cards for every adult in the population to each have four or five cards. The institutions have targeted young people in their ad campaigns, in part because they lack their parent's deep-seated distaste for using credit. In their haste to expand credit-card use checks, institutions often failed to check whether or not they were issuing cards to people already running up debt on cards issued by their competitors.ignored the fact that their competitors were issuing cards to the same people. Young people were particularly targeted to

receive cards, in part because they lacked older generations' deep-seated distaste for using credit to make purchases.

Card Debt Fueled by Drive to Lower Bank NPLs

¶ 13. (SBU) The problems associated with card debt in Taiwan were also, ironically, fueled by the successful efforts to reduce the level of non-performing loans at Taiwan banks, according to local bank executive. As banks tightened lending standards for commercial and consumer loans, some consumers and small businesses denied bank loans turned to readily available credit card financing instead. The retreat from consumer loans, in turn, left banks eager for a new source of revenue.

¶ 14. (SBU) Card debt write-offs by Taiwan banks increased sharply due to card- issuing banks trying to meet new, stricter non-performing loan (NPL) standards imposed by bank regulators, reported reftel. The banks sold most of this delinquent card debt to asset management companies, which in turn hired debt collection agencies to pursue payment.

Banking Bureau Claims Not a Serious Economic Problem

¶ 15. (SBU) At the same time, the amount of card debt was continuing to grow rapidly. Financial Supervisory Commission (FSC) Banking Bureau data showedI don't want to cite a specific individual in an unclassified cable.) that the rapid growth of card accounts were driven by the handsome profits originating from card services, and the large volume of write-offs showed Taiwan bank had sufficient profitability to deal with bad debts. The data showed that overall card holder debt remained relatively small and unlikely to seriously impact overall consumer spending. It showed that cumulative lending to cash card holders as of August 2005 was only NT\$312 billion, less than two percent of total bank loans (NT\$16.5 trillion).

¶ 16. (SBU) According to FSC figures, in December 2005, the average non-performing loan ratios for credit and cash cards were only 2.4% and 1.8%, respectively, both lower than in many economies in the region and comparable to the levels in the United States..

But Aa Huge Social Problem

¶ 17. (SBU) While the amount of debt may have appeared minor in strictly financial terms, local media and politicians have uncovered numerous dramatic stories highlighting the plight of card slaves. Newspaper readers were treated to accounts of Taiwan university students forced to serve as sex workers in Japan, or as surrogate mothers, or to rob banks in order to pay off credit card debt. The media reported on the heavy-handed harassment of debtors by debt collection agencies, including threats of physical harm, dozens of phone calls throughout the day and night, and threatening calls to relatives of the debtors. Bankers have admitted to AIT that one of the most effective means of recovering debt from young people is to tell their parents of the problem. While the collection agencies used by the banks are regulated to some extent, the collection agencies used by asset management companies are not regulated and are reportedly linked to criminal gangs.

¶ 18. (SBU) The issue shot to an even higher profile in late 2005, when an aide to outspoken Independent Legislator Lee Ao reportedly killed herself to avoid harassment by a collection agency. Lee Ao and KMT Legislator Hsu Chung-hsiung urged the Legislative Yuan (LY) to take measures to protect consumers. Taiwan's LY began discussions in December 2005 of an amendment to Taiwan's Banking Act that would cap the maximum interest rate that could be charged on revolving debt and restrict the spread (difference) between the rate banks charge their customers and the rate banks pay

for funds.

What Worries Bankers

¶9. (SBU) The Banking Act amendment proposed in December would have limited the rate banks can charge on unsecured loans (specifically cash card and credit cards) to 10 percentage points over the average one-year deposit rate in Taiwan; about 8 percentage points lower than the highest rates banks had been charging. The proposed amendment would have required banks to raise the minimum monthly repayment on card balances to 10%. Both foreign and local banks criticized the anti-market impact of the bill, which contradicted the official policy of reliance on market mechanisms, and which could damage Taiwan's financial reputation. In response to the criticisms, the LY agreed to put the amendment on hold if the banks adopted "voluntary" measures to better protect the interests of their creditcard and cash card customers.

Taiwan Bankers Association "Voluntary" Measures

¶10. (SBU) The Taiwan Bankers Association (TBA) in late December 2005 drafted a set of debt rescheduling guidelines, modeled on U.S. practices. The guidelines require banks to set a minimum monthly payment of 10% of the credit card bill incurred the previous month, but permit banks to keep their minimum monthly repayment at 2-5% of the total credit card balance. The new TBA guidelines also create a system that will bar future bank loans to debtors who reschedule repayments. The bar remains until the debtors repay all of their debt. For delinquent debtors (those failing to make the minimum monthly payments), banks will permit repayment of debt in 80 installments without interest charges if the outstanding unsecured debt exceeds 25 times their monthly income, or in 60 installments with an interest rate of 3.88% if the outstanding unsecured debt is 17-25 times their monthly income. The guidelines do not permit delinquent debtors to reschedule their debt repayment if their outstanding unsecured debt is less than 17 times their monthly income. The guidelines also permit debtors repaying normally to reschedule repayment if their outstanding debt exceeds 25 times their monthly income.

Taiwan's Credit Rating System

¶11. (SBU) The executive branch, faulted by the media and legislators for not adequately protecting Taiwan consumers, has been scrambling to show that it too cares. In February, Taiwan's FSC instructed the Joint Credit Investigation Center to follow the U.S. FICO (Fair Issac Corporation, which produces the FICO Score, the most widely used consumer credit score) model to create a reliable credit assessment system to rate Taiwan consumer banking customers. The FSC has proposed that banks differentiate the interest rates charged to customers based on their credit rating. In addition, the FSC has already ordered banks to stop offering incentives and prizes for new creditcard and cash card customers. However, one American banker said the problem is not that Taiwan lacks a good credit rating system, but that many smaller banks simply didn't bother to check credit histories.

Personal Bankruptcy Law Needed

¶12. (SBU) Since Taiwan Premier Su Tseng-chang said on February 21 that dealing with "card slavery" is one of the government's most urgent tasks, other government agencies are also trying to get in on the act. The Judicial Yuan wants to revise the Bankruptcy Law to add provisions for personal bankruptcy, but so does the Ministry of Economic Affairs. Both agencies now claim jurisdiction.

¶13. (SBU) However, bankers worry that the a new bankruptcy

law may make it too easy for people to declare bankruptcy and too easy for them to reestablish a positive credit rating after bankruptcy. Bankers point to the 2005 changes made to U.S. bankruptcy law to make declaring bankruptcy more difficult.

Conclusion

¶14. (SBU) The legislature has set aside the Banking Act amendment proposed in December that would limit interest spreads, and banking stocks have recovered losses incurred at that time. However, there is still likely to be some form of new banking legislation designed to better protect consumers. One of Taiwan's legislators explained to AIT that the current bankruptcy law was drafted over 40 years ago and only allowed corporate bankruptcy. At that time, she said, unsecured consumer loans were unheard of in Taiwan. The current situation, she continued, gives consumers no way to escape from high-interest rate debts that they have no hope of ever paying off, and has driven some consumers to take desperate measures, including suicide.

¶15. (SBU) However, some bankers still worry that the main impact of these consumer protection measures would be to make it harder for consumers to get bank credit. Tighter bank credit would benefit illegal lenders, and the sharp increase in card cancellations could dampen Taiwan's private consumption and economic growth. Legislation that makes it harder to collect debt might lower the overall credit rating given to Taiwan's financial sector. The competing interests of creating a competitive financial sector and protecting consumers must be carefully balanced.

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